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BARRON'S COVER

Dressing Up 2014

After a dismal year for active management, Vanguard takes No. 1 spot in the Barron's/Lipper Rankings.

By LAWRENCE C. STRAUSS

February 7, 2015

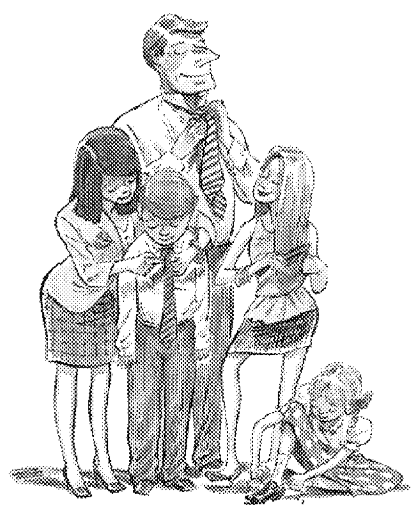
Tables: The Best Fund Families of 2014

Best Fund Families in 5-Yr and 10-Yr Ranking

The worst year for active management led to a pretty unusual showing for 2014's *Barron's*/Lipper Fund Family Ranking. We'll cut to the chase: Vanguard tops the list -- but not for the reason you might think. The Vanguard Group, with two-thirds of its $3.1 trillion in assets under management in index funds, was surely helped by its large devotion to matching market returns in a year in which most active managers struggled to outperform. But the $1 trillion the firm has in actively managed funds truly shined. (And that $1 trillion is more than 63 of the 65 families on this list have in all of their funds, combined.)

Vanguard's largest actively managed offering, the $88 billion Vanguard Wellington (ticker: VWELX), returned 9.8%, beating 86% of its peers. Overall, 11 of the firm's 24 actively managed funds in this survey topped their benchmarks -- much better than the typical U.S. actively managed stock fund.

Even so, Vanguard's index funds did better, on average than its actively managed funds. The index funds and exchange-traded funds included in this survey finished in the 72nd percentile of their respective Lipper categories, while the active funds placed in the 68th. (In these rankings, the 100th percentile is the best, and the first is the worst.)



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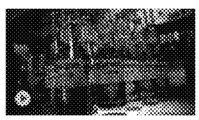
"All of the planets lined up for Vanguard in 2014, no question," says Daniel P. Wiener, who writes a monthly newsletter about the Malvern, Pa., asset manager and produces an annual review of its performance.

Three of the top six finishers in the annual fund-family ranking have a big focus on passive investments, including exchange-traded funds. Invesco (IVZ), which has nearly a fifth of its assets in its PowerShares ETFs and index mutual funds, ranked third. BlackRock (BLK), the largest asset manager in the world, came in sixth, no doubt helped by its sprawling $1 trillion iShares ETF franchise.

That Vanguard did so well in the one-year ranking isn't surprising, considering that only 20% of U.S. actively managed stock funds beat their benchmarks in 2014, versus 45% the year before, according to Morningstar. With equity valuations stretched, it was



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That Vanguard did so well in the one-year ranking isn't surprising, considering that only 20% of U.S. actively managed stock funds beat their benchmarks in 2014, versus 45% the year before, according to Morningstar. With equity valuations stretched, it was difficult for many fund managers to match their bogeys, much less exceed them. Although certain sectors had good returns, including technology, utilities, and health care, the returns in other parts of the market -- notably consumer discretionary, materials, and industrials -- were more muted. And energy's dismal decline eroded many gains in the second half of the year.

GOOD PERFORMANCE in the U.S. equity category was very important. Our rankings are asset-weighted, which means a firm's largest funds contribute the most to its overall standing. Domestic stocks account for 40% of assets in the one-year survey -- by far the biggest weighting. Vanguard finished third in that category; BlackRock and Invesco came in sixth and 11th, respectively. All were helped by large, broad-market funds, including the $390 billion Vanguard Total Stock Market Index (VITSX) and its $52 billion ETF counterpart (VTI); BlackRock's iShares MSCI EAFE ETF (EFA), that firm's third-largest retail fund with $53.5 billion in assets, and Invesco's largest fund, the $37 billion PowerShares QQQ (QQQ), which tracks the Nasdaq 100 index. S&P 500 index funds weren't included in the ranking.

The other categories are world equity, with a weighting of 15.9%; mixed funds, such as target-date, balanced, and other asset-allocation funds, 19.2%, taxable bonds, 21.5%; and tax-exempt bonds, 3.4%.

Rounding out the top six are three firms that are far from household names in the U.S. fund world.

BMO Global Asset Management, which is part of Bank of Montreal (BMO), came in second. Its U.S. retail mutual funds, which oversee $14 billion in assets, were helped by finishing second in world equities and fifth in taxable bonds.

How We Rank The Fund Families

To qualify for the

Each fund's returns are adjusted for 12b-1 fees, which are used for marketing and distribution expenses. Funds typically factor these into returns, to better reflect what investors would see after these annual fees have been deducted. But our aim is to measure the manager's skill, uncomplicated by expenses. Fund loads, or sales charges, aren't included in the calculation of returns, either.

Each fund's performance is measured against those of all funds in its Lipper category (such as small-value). That leads to a percentile ranking, with 100 the highest and one the lowest, which is then weighted by asset size, relative to the fund family's other assets in its general classification. If a family's biggest funds do well, that boosts its overall ranking; poor performance in the biggest funds hurts a firm's ranking. Finally, the score is multiplied by the weighting of its general classification, as determined by the entire Lipper universe of funds. The category weightings for the one-year results: general equity, 40%; world equity, 15.9%; mixed asset, 19.2%; taxable bond, 21.5%; and tax-exempt bond, 3.4%. The category weightings for the five-year results: general equity, 41%; world equity, 15.5%; mixed asset, 19.2%; taxable bonds, 20.7%, and tax-exempt bonds, 3.6%. The category weightings for the 10-year results: general equity, 45.2%; world equity, 13.6%; mixed asset, 17.5%; taxable bonds, 19.5%, and tax-exempt bonds, 4.1%.

The scoring. Say a fund in the general U.S. equity category has $500 million in assets, accounting for half of it parent's assets in that category. Its ranking is the 75th percentile. The first calculation would be 75 times 0.50, which comes to 37.5. That score is then multiplied by 40%, general equity's overall weighting in Lipper's universe. So it would be 37.5 times 0.4, which equals 15. Similar calculations are done for each fund in our study. Then, all the numbers are added up. The shop with the highest total score wins, both for every category and overall. The same process is repeated for the five- and 10-year rankings, based on their weightings

SEI Group, part of the financial-services company SEI Investments (SEIC), based in Oaks, Pa., ranked fourth. It was 13th in the all-important U.S. equity category -- thanks in part to the SEI Large Cap Disciplined Equity fund (SCPAX), which outpaced 73% of its Lipper peers by returning 13.2% last year. SEI also came in seventh in the taxable-bond category. The firm has $117 billion in 50 mutual funds, but its legacy business is providing back-office services, such as record-keeping, to private banks and other institutions.

Coming in fifth was Principal Funds, part of Principal Financial Group (PFG), an insurer and asset manager based in Des Moines, Iowa. It has a big focus on the retirement market, including target-date retirement funds. Principal turned in a strong showing across the board, placing in the top third or better in all five categories.

NEITHER SEI NOR BMO had distinguished themselves in the recent one-year rankings. BMO finished 61st in 2013 -- three spots from the bottom -- and 34th in 2012. Last year, *Barron's* pointed out some of the BMO funds' shortcomings, noting that several of its bigger stock funds badly trailed their peers. One of those funds, $304 million BMO Large Cap Growth (MLCIX), had a much better year this time around. With a total return of 14.5% in 2014, the portfolio placed in the top 10% of its category, helped by a larger-than-average helping of technology and health-care companies, and few energy stocks.

"Our focus is on finding sound, high-quality securities, and we have done that for over a decade," says Barry McInerney, the co-CEO of BMO Global Asset Management, who oversees the firm's U.S. fund business. "That came through stronger in 2014." BMO didn't have the requisite funds to qualify for the five- or 10-year rankings.

SEI, fourth in the rankings, finished a disappointing 46th in 2013 and 44th in 2012, but its

securities, and we have done that for over a decade," says [illegible] Global Asset Management, who oversees the firm's U.S. fund business. "That came through stronger in 2014." BMO didn't have the requisite funds to qualify for the five- or 10-year rankings.

SEI, fourth in the rankings, finished a disappointing 46th in 2013 and 44th in 2012, but its five-year ranking has been improving. It was 31st among 58 firms this time, versus 41st in 2013 and 49th in 2012. The latest showing didn't move the needle much for SEI's 10-year return, which was 44th, four spots from the bottom.

"Most people were positioned for some growth," says Kevin Barr, who heads SEI's investment-management business. "But what actually performed in 2014 was more-defensive sectors," such as health care and utilities, he adds.

Among the funds that helped bolster the shop's performance was SEI Tax-Managed Volatility (TMMAX), which outstripped 97% of its Lipper peers last year, with a total return of 16.2%. Its holdings included Johnson & Johnson (JNJ), which returned 17.3%, and the New York–area utility Consolidated Edison (ED), 24.8%.

Unlike BMO and SEI, which have bounced around in the rankings, Principal has played a steadier hand. Though it did come in 43rd in the previous one-year table, it placed 11th the year before that, and its five-year showing has been improving steadily: ninth in 2014, 27th in 2013, and 34th in 2012. Its 10-year ranking was a solid No. 20 -- a top-half finish. "Our focus tends to be as much on three- and five-year returns, as it is on one-year returns," says Nora Everett, the president and CEO of Principal Funds.

The $9.8 billion Principal MidCap (PEMGX), which finished in the top quartile of its peer group with a total return of 12.6%, helped Principal's ranking.

THE REMAINING FIRMS in the top 10 of the one-year ranking are familiar names, all but one of which rose from the bottom half. That was Goldman Sachs Asset Management, which placed at No. 7, up from 21 a year earlier. Its good 2014 performance was propelled by a first-place showing in U.S. stock funds.

No. 8 American Century Investment Management, which rose all the way from 56th in our 2013 ranking, was helped by good marks in U.S. stocks and mixed-asset funds.

No. 9 was UBS Global Asset Management -- 38th a year earlier -- thanks in part to strong results in world stocks.

And Legg Mason (LM) came in 10th, up from 42nd. Though stocks have the heaviest weighting in our ranking, a great performance in fixed income helped Legg Mason crack the top 10. A laggard last year at No. 42, it did especially well this time, thanks to its premier bond shop, Western Asset Management, and to fixed-income funds run by Brandywine. Legg was No. 2 in taxable bonds and 19th in tax-free bonds. Equities -- primarily managed by Legg's ClearBridge and Brandywine affiliates -- weren't nearly as strong: Legg was 38th in U.S. stocks and 41st in world stocks.

A key bond trade for the firm was to overweight long-term Treasuries and to underweight short-term paper. "A lot of people thought 30-year bonds would do worse when the Fed stopped buying [them], but we thought short-term Treasuries would do worse" last year, says Kenneth Leech, a portfolio manager and chief investment officer at Western Asset Management. That wasn't Western's only good call, but it nicely boosted the firm's taxable fixed-income funds, especially with rates sliding at the longer end of the curve.

Legg ranked 22nd in the five-year results, a top-half showing, albeit down from its 11th-place finish last year.

WE CAN'T TALK ABOUT fund families in 2014 without mentioning Pimco, which started the year with the abrupt departure of its CEO, Mohamed El-Erian, and ended it with the even more abrupt departure of co-founder Bill Gross. Throughout the turbulent year, the firm was beset by outflows and performance woes. The $143 billion Pimco Total Return fund (PTTAX), which Gross helmed for many years, gained 4.5%, leaving it behind 72% of its Lipper peers. Overall, the firm came in a middling 29th in taxable bonds and 47th in municipals.

Remarkably, however, Pimco's ranking climbed all the way to 13th, up from 54th a year earlier, thanks to a very good showing in stocks -- fourth in the U.S. category and 13th in world equities.

Pimco's stock funds, which account for just a sliver of its assets under management -- $55 billion of $1.7 trillion -- aren't cut from the traditional mold of large-company value or small-company growth. Take one of its top performers, the Pimco EMG International LowVol RAFI-PLUS Absolute Return (PLVLX): The $4.6 billion fund uses derivatives to get exposure to the index after which it is named, combining that with fixed-income holdings to damp volatility. With a return last year of 0.32%, it outdid more than three-quarters of its Lipper peers in the emerging-market stock category.

Its recent struggles notwithstanding, Pimco claimed No. 1 in our five-year ranking.

Next up was Waddell & Reed Investment Management, Invesco, Ivy Investment Management (a sister firm of Waddell's), and T. Rowe Price Group (TROW).

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THERE WERE A FEW CHANGES to the composition of this year's list. Charles Schwab (SCHW), which finished 18th in 2013, wasn't included in this year's rankings. The amount of assets for its tax-exempt bond fund wasn't in Lipper's system when the survey was run, according to Lipper. Lazard Asset Management, No. 58 last time, had a tax-exempt fund reclassified into another category, so it didn't make it this time, either, says Lipper. To qualify for this survey, a fund shop must have at least one tax-exempt bond fund.

Three newcomers joined the list: Victory Capital Management, a conglomeration of boutique managers, which came in 15th; Brown Advisory Funds, formerly part of Alex. Brown & Sons, at No. 25, and SIT Investment Associates, which placed 39th.

ON TO THE DOWN SIDE: While the top of 2013's list was similar to 2012's, volatility ruled in 2014. None of the top 10 of 2013 were in that elite group last year. The closest was Lord Abbett, which came in 11th, down from fourth on our 2013 list.

Those falling out of the top 10 included T. Rowe Price. Though a consistently high-performer, T. Rowe went from seventh in 2013 (and eighth the year before) to 18th in 2014. Hartford Funds went from eighth to 30th, with an especially poor showing in taxable bonds (56th out of 65), and MFS Investment Management went from 10th to 41st, ending a two-year streak in which it had placed in the top 10. The Boston asset manager struggled in U.S. equities, finishing 58th. On the plus side, MFS placed 13th on the five-year list and fifth in the 10-year ranking.

NATIXIS GLOBAL Asset Management, last year's top finisher, fell to 36th. Because it didn't meet all of the requirements for ranking in terms of its fund lineup in 2012, it doesn't show up in the five- and 10-year rankings. The Boston and Paris firm, which owns a group of boutique managers, such as Harris Associates in Chicago and Loomis Sayles in Beantown, was hampered by mediocre results in U.S. stocks (No. 30) and weak finishes in world equities (No. 51) and taxable bonds (No. 52).

For example, its Oakmark fund (OAKMX), run by longtime value managers Bill Nygren and Kevin Grant, returned 11.5% in 2014, far from a terrible result -- but it did trail the 13.7% of the Standard & Poor's 500, placing the fund in the bottom half of its category. Because the $17.7 billion fund holds such a large chunk of Natixis' overall U.S. stock-fund assets, it impeded the firm's overall ranking.

PUTNAM INVESTMENT MANAGEMENT, which topped our calendar-2012 ranking, slipped from second place in 2013 to 33rd this time around, despite a solid result in U.S. equities, where it placed 16th, and a super performance in mixed-asset funds (No. 2). Yet all of that was undone by very weak showings in taxable bonds, where it finished near the bottom (No. 59) and tax-exempt bonds (No. 45). Putnam came in sixth in the five-year ranking, down from second last year. The Boston outfit climbed two places in the 10-year table, placing 30th among 48 fund families.

Waddell & Reed had one of the worst stumbles, dropping from No. 5 all the way to 50th, plagued by problems in two of its largest offerings -- Waddell & Reed Asset Strategy (UNASX) and Waddell & Reed High Income (UNHIX). Both had high-profile manager departures; the Asset Strategy fund, which had outflows, performed poorly.

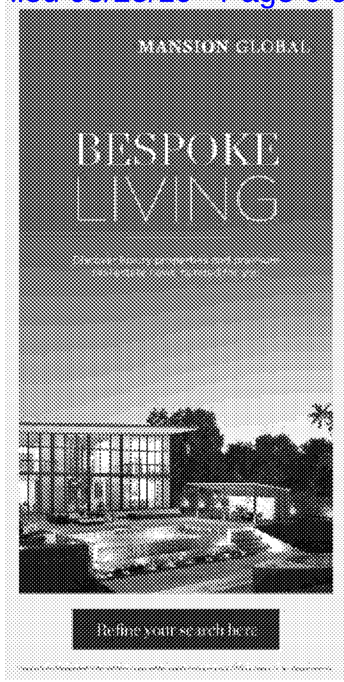
Launched in 1995, Waddell & Reed Asset Strategy, which has a go-anywhere mandate across stocks, bonds, commodities, and cash, has been a strong performer. The $3.3 billion fund had a lousy 2014, however, down 5%, trailing nearly 90% of its peers.

It "definitely had a disappointing year," observes Henry Herrmann, the CEO of parent company Waddell & Reed Financial (WDR). "It was too defensive." The fund didn't have enough stocks, he adds, and had too large an allocation to Chinese companies. Likewise, Ivy Investment Management, whose fund lineup is similar to Waddell's, saw its ranking plummet from 11th to 43rd for the same reasons. However, despite their 2014 showings, Waddell & Reed came in second over five years and first over 10, while Ivy was fourth and third.

DIMENSIONAL FUND ADVISORS has a strong long-term record, 10th in the five-year ranking. It did dismally on the one-year scorecard, dropping from sixth in 2013 to 60th, including a woeful 54th in U.S. stocks.

Though often regarded as a passive shop, DFA uses fundamental factors such as price-to-book ratios to help construct its portfolios. One of the underpinnings of its investment philosophy is the conviction that, over time, small companies outperform large ones, and value does better than growth. But "the volatility of these [return] premiums can be quite high," says Bhanu Singh, a portfolio manager at DFA. "While they are there longterm, in a given year they can be negative." And 2014 was one of those years.

Another factor was that in many of its funds, DFA excludes real estate investment trusts and highly regulated utilities, both of which performed well last year. "Those two categories tend not to deliver the full equity premium" over longer periods, says Singh. In other



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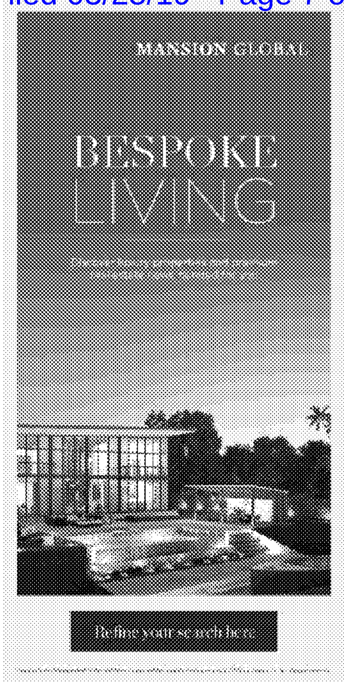

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A FIRM WITH an especially volatile ranking history in recent years is MainStay Funds. Ranked 58th this time, the group was 28th in 2013 and 56th the year before that. That partly reflects the uneven returns of $8 billion MainStay Marketfield (MFADX).

The fund more than tripled in size after MainStay took it over in 2012, passing $19.3 billion and returning 16.6% in 2013. But last year, it was down 12.3%, surpassed by 98% of its peers in Lipper's alternative global macro funds category. Ouch!

William McNabb III

Vanguard may be synonymous with indexing, but about half of its funds and a third of its assets are actively managed -- and doing very well.

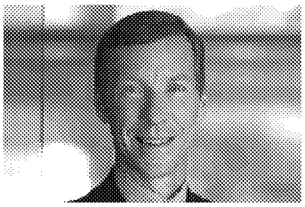

Exhibit A: Vanguard Primecap (VPMCX), a $48 billion fund that finished at the top of Lipper's large-cap core equity category. Closed to new investors, the fund notched a total return last year of 18.7%, well ahead of the 13.7% of the Standard & Poor's 500.

The Primecap team has been subadvising the fund for 31 years, and in that time has handily beaten the S&P 500. Most of Vanguard's active funds are run by external asset managers; the list is a who's who of premier value shops, hedge funds, and other asset managers such as Wellington, D.E. Shaw, Lazard, and Marathon.

In keeping with the firm's cost-conscious approach to, well, everything, these big-name managers don't come with big price tags. Cost is perhaps the biggest reason more active managers don't beat their benchmark, and Vanguard's actively managed funds "typically have a pretty big tail wind from the cost side," says William McNabb III, Vanguard's CEO since 2008. Primecap's investor share class has an expense ratio of 0.44%, a fraction of the 1.23% average costs of its peers, according to Morningstar.

"High-cost active is dead," says McNabb, 57, who began his career at the company 30 years ago in its then-nascent 401(k) business. "There can be a place for active portfolio management in people's portfolios, but if you're a high-cost manager, it's going to be very difficult to compete."

Vanguard is not publicly traded or family-owned; the firm is essentially owned by its fund shareholders, and profits go directly to benefit them, rather than corporate owners -- keeping costs low.

On McNabb's watch, Vanguard has more than doubled its assets. It now manages $3.1 trillion, versus $1.3 trillion at the end of 2008. The firm's stellar active funds notwithstanding, passive investing is what's driving Vanguard's growth. Traditional index funds had net inflows of $125 billion last year, plus another $75 billion into ETFs, and $16 billion for active funds.

Although Vanguard did come in No. 2 in our 2011 ranking, it has typically finished in the middle of the pack -- 36th last year and 31st in 2012 -- not surprising for a firm that's so heavily geared toward indexing. It has acquitted itself well in the longer-term rankings -- coming in 11th out of 56 firms in the five-year survey, and 10th in the 10-year, besting 39 others.

VANGUARD DOESN'T CHURN OUT new funds to capitalize on the latest trend. McNabb's focus, true to his beginnings with the firm, is on ensuring that investors can save enough to retire, and get the advice they need along the way. He's worried that Social Security won't cover retirement expenses for enough people, and wants to see simpler regulations that would allow more smaller businesses to set up retirement plans.

Vanguard also plans to move more into financial planning. "Investors are increasingly asking us for more help managing their portfolios," McNabb says. The firm has recently expanded its advisory business. A pilot program, Vanguard Personal Advisory Services, has amassed more than $5 billion of assets, up from $755 million at the end of 2013. Vanguard has been offering portfolio-management advice to clients with more than $500,000 since 1996; this new program gives customers with any size account balance access to a personal advisor who will provide a financial plan and continuing portfolio management. People with $100,000 at Vanguard will pay just 0.3% for the advisory services.

-- L.C.S.

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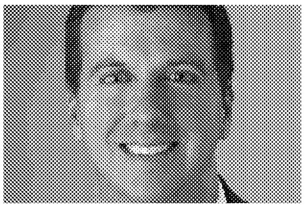
-- *L.C.S.*

Barry McInerney

BMO Asset Management, part of the Bank of Montreal, is hardly a household name in the U.S. In fact, you're probably reading the name as B-M-O, but those in the know refer to the company as "Beemo."



BMO has $60 billion under management in the U.S., with a fairly standard retail-fund lineup of 45 funds with total assets of just $14 billion -- smaller than many individual funds run by Vanguard or Fidelity.

The firm is determined to increase its U.S. business; it acquired Marshall & Ilsley, a Wisconsin bank, in 2011. With that purchase came 20 U.S.-listed mutual funds. Although the asset manager had a small presence here before then, that deal "gave us a platform in the U.S.," says Barry McInerney, 51, the co-CEO of BMO Global Asset Management, who oversees the firm's U.S. fund business. It relies on intermediaries to sell its funds -- its sales channels include registered investment advisors, wire houses, and 401(k) plans.

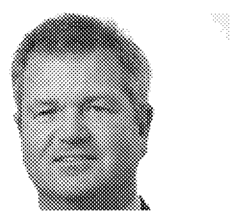
BMO, which runs $272 billion globally, has been using its reach to have some of its managers outside of North America run portfolios for investors domiciled here, such as the $409 million BMO Pyford International Stock fund (MISNX). With a total return last year of 0.6%, it bested more than 90% of its Lipper peers, though the three-year-old fund's performance wasn't nearly as good in 2012 and 2013.

McInerney, who is based in Chicago and has worked for the company since 2009, says the next wave of growth will be among alternative funds and exchange-traded funds. Alternatives, he says, provide returns "that aren't based on market conditions." Late last year, BMO launched its first U.S. retail fund in that space, BMO Alternative Strategies (BMATX), a long-short fund that can also go into (or bet against) currencies and interest rates, as well as stocks and bonds.

BMO ETFs make up 25% of the Canadian market, but McInerney wouldn't divulge what plans BMO has, if any, on cracking the ultracompetitive U.S. ETF market.

Martin Flanagan

Invesco looks a lot different today than when Martin Flanagan took over the asset manager a decade ago. For one thing, it had a different name, Amvescap, which was changed in 2007.



Other changes were more substantive. Formerly the co-CEO of Franklin Resources (BEN) Flanagan, now 54, trimmed costs and broadened the fund lineup. In 2006, the $400 billion company acquired PowerShares, a small suite of ETFs with nearly $4 billion in assets.

Today, Flanagan presides over $792 billion in assets globally. PowerShares ETFs, most of which are based on nontraditional indexes, have grown to $100 billion in 134 ETFs. Invesco's performance has been strong; it placed third in both the one-year and five-year rankings, and fourth over 10 years. The fund lineup resembles a team with a lot of very good players but few superstars.

For its one-year tally, Invesco put up a very consistent record across the board, finishing no worse than 16th (world stocks) and 14th in municipal bonds. The other three categories saw 11th-place results -- a lot of very good results that add up to an exceptional ranking.

That well-rounded performance, says Flanagan, is an outgrowth of focusing on "generating consistent, good long-term performance within a broad range of capabilities."

Flanagan is matter-of-fact about the path he has charted, noting, for example, that offering alternative funds -- the firm has $100 billion in such areas as private-equity, real estate, and multi-asset funds -- is a common-sense strategy. Mutual funds are a lot more transparent and sell "at a fraction of the cost people would pay" for hedge funds, he says.

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Invesco's role in retirement planning, Flanagan says, is to help financial advisors answer the question, "Where can I find income?" The firm has developed online tools for individual investors, as well.

Kevin Barr

Another dark horse made it into the top five this year: SEI Group, a midsize money manager, with $117 billion in 50 U.S. mutual funds.

Flying under the radar is just fine with Kevin Barr, 48, who has overseen the company's investment-management unit since 2008. "It's not a scenario in which we have one hot fund and go out and market that fund." Instead, SEI works with financial advisors, wealth managers, and other fund companies to create customized products aimed at "solving" investor concerns, such as managing risk or providing income in retirement.

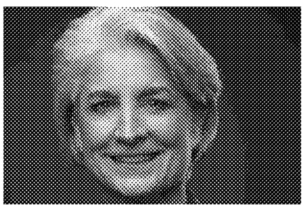
Launched in 1968, the parent company, SEI Investments (SEIC), started with computer simulations used to help train bank-loan officers, and it retains many of its bank information-technology roots. Besides asset management, the Oaks, Pa., firm offers a range of back-office services for banks, trust companies, and other clients.

Some 90% of SEI's mutual funds are subadvised, often by several managers with different styles, with the expectation of increasing the portfolio's diversification. That worked especially well last year, "when you had a lot of unexpected volatility," Barr says. AQR Capital Management, a quantitative shop headed by famed investor Clifford Asness, manages 75% of the $2.1 billion SEI Multi-Asset Accumulation (SAAAX). The fund, launched in 2012, returned 9.6% in 2014, besting more than 90% of its Lipper peers.

Barr's unusual perspective as both a fund shop and client of fund shops encourages a big-picture view. He expects investors to demand more portfolio transparency, which will fuel the growth of alternative mutual funds versus hedge funds. He also expects investor focus to be on absolute returns, "as opposed to beating a benchmark." And then there's the latest buzzword, "solutions" -- funds constructed to realize specific objectives, such as inflation protection or income.

Nora M. Everett

Principal Financial Group (PFG) began as a life insurer in 1879. Nowadays, however, it's much more focused on asset management and retirement, whose combined operating profit is more than three times as big as its U.S. insurance business.



Principal Funds oversees $120 billion, $42 billion of which is in target-date or target-risk funds. Both are funds of funds aimed at getting investors to a particular goal -- either an increasingly conservative allocation as the fund's target date nears, or a continuing level of high, moderate, or low risk. "That's our bread and butter," says Nora M. Everett, 55, president and CEO of Principal Funds.

Most of the $28 billion in those target-date funds are in 401(k) and other retirement plans. Principal is the sixth-largest in terms of target-date assets, behind behemoths like Vanguard and Fidelity.

The Des Moines, Iowa, firm's retail funds are mainly sold through financial advisors, and so come with sales charges. Many of these funds are retirement-oriented, as well, such as the $10 billion Principal Global Diversified Income (PGBAX). Launched in 2008, it invests in multiple managers providing different types of income, such as high-yield bonds and preferred stocks.

A lawyer by training who joined the company in 1991, Everett worked for Principal in mergers and acquisitions and helped carry out its initial public offering in 2001. She assumed her current post in 2008.

In recent years, Principal has added funds focusing on income, real estate, and long-short equity. "There are a lot more good conversations taking place today between advisors and

A lawyer by training who joined the company in 1991, Everett worked for Principal in mergers and acquisitions and helped carry out its initial public offering in 2001. She assumed her current post in 2008.

In recent years, Principal has added funds focusing on income, real estate, and long-short equity. "There are a lot more good conversations taking place today between advisors and clients around risk and portfolio diversification," Everett says. Recent policy changes allowing target-date funds to be the default option in 401(k) plans and include annuities have helped, she adds. "There is demand for income of all flavors."

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The rankings would be more useful if the 12b-1 fees were included as well as fund loads and sales charges.

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VANGUARD'S LOW ADVISORY FEES & CLIENT WEALTH DISTRIBUTION

There may be a good reason why Vanguard only charges its clients with at least $100,000 (a small account) in assets to invest a small fee. Small account, small fee, minimal (advisor) time. They very likely do not give much personal attention (pick-up the phone). In fact, I have read elsewhere their economy financial advisor service relies on a simple internet-based questionnaire to develop a generic financial plan (Ameriprise on the cheap). Vanguard is not a mainstream full-service brokerage and never was. Personal net worth and retail clients stratify-out quickly (UNEQUALLY).

There are way more accounts of $500,000 or less than there are retail investors with $ 1.5 Million in their brokerage account. Likewise, there are even fewer individual clients with $5 Million or more ("High Net Worth Individuals"). Even fewer with $30 Million, so much fewer that brokerages have special private

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There are way more accounts of $500,000 or less than there are retail investors with $ 1.5 Million in their brokerage account. Likewise, there are even fewer individual clients with $5 Million or more ("High Net Worth Individuals"). Even fewer with $30 Million, so much fewer that brokerages have special private bank affiliates to coddle to the "Ultra High New Worth Individuals". (Similar to luxury lounges for full-fare, first class passengers at the airport)

So, Vanguard Advisors can not be the same as far as customer service goes. While the mainline full service brokers are time conscious, they do make their services available when needed (if they care about client retention, which the definitely do as its part of the annual bonus for their financial advisors).

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Bill Greenstein Feb 8, 2015

Not sure what your point is but the simple reality is this: Vanguard sure has done something right and the vast amount of assets they have accumulated proves it!

Flag Share Like Reply

Herman Unanski Feb 8, 2015

Vanguard is the BEST. And has been for a very long time. "Stay the Course."

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Pimco Tops Five-Year Ranking for the Second Year in a Row; Vanguard Rises to No. 11

Strong performance in Pimco's stock funds mitigated woes in its biggest bond fund. Waddell, Invesco, Ivy, and T. Rowe all did well over 10 years, too.

Rank	Family	Weighted Score
1.	Pimco	74.73
2.	Waddell & Reed Invst Mgmt	71.32
3.	Invesco	70.87
4.	Ivy Investment Management	69.13
5.	T. Rowe Price Associates	68.67
6.	Putnam Investment Mgmt	67.00
7.	Delaware Management	66.50
8.	TIAA-CREF	66.38
9.	Principal Funds	66.29
10.	Dimensional Fund Advisors	65.40
11.	Vanguard Group	65.36
12.	PNC Funds	64.03
13.	MFS Investment Management	63.22
14.	Oppenheimer Funds	63.12
15.	JPMorgan	62.24
16.	Nuveen Fund Advisors	61.21
17.	First Investors Management	59.52
18.	John Hancock Group	59.19
19.	Hartford Funds	59.01
20.	Goldman Sachs Asset Mgmt	58.97
21.	Virtus Investment Partners	58.39
22.	Legg Mason	57.72
23.	Lord Abbett	57.03
24.	BlackRock	56.86
25.	Columbia Mgmt	56.40
26.	Fidelity Mgmt & Research	56.33
27.	Northern Trust Investments	56.17
28.	Guggenheim Investments	56.06
29.	USAA Asset Management	55.93
30.	MainStay Funds	55.45
31.	SEI Group	55.06
32.	RidgeWorth Funds	54.60
33.	AllianceBernstein	54.30
34.	Franklin Templeton	53.43
35.	GE Asset Management	53.27
36.	State Street Bank & Trust	52.38
37.	Federated Investors	52.17
38.	UBS Global Asset Management	52.14
39.	Wells Fargo Funds Mgmt	52.09
40.	Prudential Investments	50.91
41.	Thrivent Financial for Lutherans	50.83
42.	American Funds	50.52
43.	American Century Invst Mgmt	49.92
44.	Calvert Investments	47.31
45.	Eaton Vance Management	46.36
46.	Nationwide Fund Advisors	46.13
47.	Victory Capital Management	46.09
48.	Pioneer Investment Mgmt	45.92
49.	Affiliated Managers Group	44.93
50.	BNY Mellon/Dreyfus	44.23
51.	Russell Investment Group	41.83
52.	Deutsche Asset & Wealth Mgmt	36.80
53.	Frost Investment Advisors	34.55
54.	Wilmington Funds	33.73
55.	Manning & Napier Advisors	27.30
56.	State Farm Investment Mgmt	24.78

Consistency Rules the 10-Year Ranking

Eaton Vance and Vanguard inched up to crack the top 10, but the rest is largely the same as last year. Waddell tops this list; last year it was sister firm Ivy.

Rank	Family	Weighted Score
1.	Waddell & Reed Invst Mgmt	81.78
2.	John Hancock Group	79.87
3.	Ivy Investment Management	79.57
4.	Invesco	75.90
5.	MFS Investment Management	74.22
6.	T Rowe Price Associates	72.71
7.	JPMorgan	71.68
8.	RidgeWorth Funds	71.20
9.	Eaton Vance Management	70.75
10.	Vanguard Group	69.95
11.	Delaware Management	68.46
12.	Wells Fargo Funds Management	67.71
13.	MainStay Funds	65.96
14.	Prudential Investments	65.68
15.	Fidelity Mgmt & Research	65.33
16.	Franklin Templeton	63.87
17.	BlackRock	63.75
18.	Columbia Mgmt	63.56
19.	American Funds	63.14
20.	Principal Funds	62.86
21.	Lord Abbett	60.34
22.	Nuveen Fund Advisors	59.50
23.	Federated Investors	59.50
24.	American Century Invst Mgmt	56.32
25.	Dimensional Fund Advisors	55.88
26.	Northern Trust Investments	54.77
27.	Virtus Investment Partners	54.09
28.	Hartford Funds	54.04
29.	Goldman Sachs Asset Mgmt	53.27
30.	Putnam Investment Mgmt	53.28
31.	Oppenheimer Funds	52.42
32.	Thrivent Financial for Lutherans	51.35
33.	First Investors Management	51.09
34.	GE Asset Mgmt	49.88
35.	Legg Mason	49.65
36.	Pioneer Investment Mgmt	49.12
37.	AllianceBernstein	47.87
38.	PNC Funds	44.76
39.	State Farm Investment Mgmt	43.63
40.	Nationwide Fund Advisors	42.42
41.	USAA Asset Management	42.40
42.	Wilmington Funds	40.22
43.	UBS Global Asset Mgmt	40.18
44.	SEI Group	38.92
45.	BNY Mellon/Dreyfus	38.90
46.	Deutsche Asset & Wealth Mgmt	38.57
47.	Calvert Investments	36.25
48.	Russell Investment Group	35.42

The Best Fund Families of 2014

Long known for its index funds, this year's winner, Vanguard, was propelled to the top by the outperformance of its actively managed funds. The top 10 spots don't have any repeats from last year.

Rank	Family	Total Assets (bil)*	Weighted Score	FUND RANKING U.S. Equity	World Equity	Mixed Equity	Taxable Bond	Tax-Exempt Bond	Phone
1.	Vanguard Group	$2343.40	73.48	3	27	4	4	24	800-662-7447
2.	BMO Global Asset Mgmt	7.54	67.23	31	2	25	5	13	800-236-3863
3.	Invesco	216.76	67.17	11	16	11	11	14	800-983-0903
4.	SEI Group	80.73	63.56	13	19	31	7	42	800-342-5734
5.	Principal Funds	141.16	63.29	12	21	20	21	11	800-222-5852
6.	BlackRock	752.30	62.93	6	22	36	9	43	800-474-2737
7.	Goldman Sachs Asset Mgmt	101.32	62.72	1	28	62	19	12	800-621-2550
8.	American Century Invst Mgmt	112.26	62.25	8	48	8	25	48	800-345-2021
9.	UBS Global Asset Management	12.42	61.26	25	7	12	39	34	888-793-8637
10.	Legg Mason	113.42	60.78	38	41	23	2	19	800-822-5544
11.	Lord Abbett	113.03	60.76	36	25	41	1	9	888-522-2388
12.	JPMorgan	286.93	60.40	2	44	26	44	54	800-480-4111
13.	Pimco	392.32	60.34	4	13	46	29	47	888-877-4626
14.	Delaware Management	40.76	59.87	10	60	19	16	18	800-523-1918
15.	Victory Capital Management	16.40	59.40	7	5	5	65	59	800-539-3863
16.	T. Rowe Price Associates	525.43	58.88	40	8	15	33	29	800-638-5660
17.	Nuveen Fund Advisors	46.06	58.26	21	50	16	24	10	800-257-8787
18.	Fidelity Mgmt & Research	1256.52	57.71	29	33	24	22	32	800-544-8544
19.	Guggenheim Investments	36.53	57.69	18	59	1	48	8	800-888-2461
20.	Prudential Investments	49.71	57.49	26	38	27	15	36	800-225-1852
21.	Calvert Investments	9.82	57.34	15	52	9	30	61	800-368-2745
22.	Northern Trust Investments	39.68	56.92	17	46	17	34	40	800-595-9111
23.	Thrivent Financial for Lutherans	16.83	56.60	34	18	38	12	52	800-225-5225
24.	PNC Funds	2.90	56.40	9	43	30	51	28	800-551-2145
25.	Brown Advisory Funds	5.08	56.25	61	10	3	6	62	800-540-6807
26.	GE Asset Management	18.30	55.53	5	64	14	26	53	800-242-0134
27.	American Funds	1205.48	53.69	49	17	18	40	51	800-421-0180
28.	TIAA-CREF	99.92	53.54	14	58	43	14	23	800-223-1200
29.	Columbia Management	153.55	53.36	43	26	28	32	31	800-345-6611
30.	Hartford Funds	64.69	53.33	28	29	29	56	16	888-843-7824
31.	Pioneer Investment Mgmt	33.96	53.31	22	32	61	10	21	800-225-6292
32.	State Farm Investment Mgmt	16.35	53.27	35	57	32	8	44	800-447-4930
33.	Putnam Investment Mgmt	68.60	52.81	16	61	2	59	46	800-225-1581
34.	AllianceBernstein	55.70	52.71	37	39	51	3	49	800-221-5672
35.	USAA Asset Management	52.73	52.63	20	36	57	13	17	800-531-8722
36.	Natixis Global Asset Mgmt	163.92	52.33	30	51	13	52	37	800-225-5478
37.	State Street Bank & Trust	85.33	51.95	23	30	35	57	41	800-997-7327
38.	Eaton Vance Management	69.28	51.86	50	42	21	23	6	800-262-1122
39.	SIT Investment Associates	2.50	50.83	24	49	7	64	3	800-332-5580
40.	John Hancock Group	168.00	49.65	47	23	42	28	30	800-225-5291
41.	MFS Investment Management	183.11	49.48	58	12	39	17	26	800-225-2606
42.	Federated Investors	56.36	49.30	27	34	48	42	35	800-245-5051
43.	Ivy Investment Management	57.98	48.68	33	6	65	43	50	800-777-6472
44.	Deutsche Asset & Wealth Mgmt	35.47	48.43	42	45	37	45	22	800-728-3337
45.	Oppenheimer Funds	193.94	47.89	32	56	44	38	5	800-225-5677
46.	RidgeWorth Funds	19.33	47.77	45	62	22	37	20	888-784-3863
47.	Wilmington Funds	3.20	47.33	44	15	58	36	38	800-336-9970
48.	Affiliated Managers Group	88.36	47.20	53	11	34	58	7	800-548-4539
49.	Schroder Invst Mgmt N. Amer.	3.27	47.16	19	53	63	41	1	800-464-3108
50.	Waddell & Reed Invst Mgmt	24.16	46.67	48	4	56	53	56	888-923-3355
51.	First Investors Mgmt	8.52	46.40	59	9	33	55	45	800-423-4026
52.	Transamerica Asset Mgmt	39.26	46.11	55	35	40	27	2	800-851-9777
53.	BNY Mellon/Dreyfus	67.90	45.69	57	40	18	46	33	800-645-6561
54.	Russell Investment Group	43.48	44.68	39	31	60	47	39	800-787-7354
55.	Nationwide Fund Advisors	19.82	44.62	41	24	55	49	57	800-848-0920
56.	Neuberger Berman Mgmt	36.64	43.95	60	14	53	31	15	800-877-9700
57.	Frost Investment Advisors	2.95	43.71	46	65	6	54	63	877-713-7678
58.	MainStay Funds	72.61	43.51	51	20	59	50	4	800-624-6782
59.	Franklin Templeton	399.90	39.63	52	54	54	35	25	800-342-5236
60.	Dimensional Fund Advisors	241.38	39.46	54	47	64	18	55	**
61.	FolioMetrix	0.21	37.01	64	3	45	62	64	800-773-3863
62.	Wells Fargo Funds Mgmt	114.11	36.87	62	55	52	20	27	800-222-8222
63.	AssetMark	3.31	34.46	56	37	49	60	58	800-664-5345
64.	Virtus Investment Partners	32.49	32.42	65	1	50	61	60	800-243-4361
65.	Manning & Napier Advisors	19.64	21.97	63	63	47	63	65	800-466-3863

*Total assets reflect funds included in the survey. **No 800 number; available only through advisors.

Source: Lipper

U.S. Equity

Goldman Sachs tops the list, but perhaps the surprise is Pimco at No. 4.

Rank	Best	Score
1.	Goldman Sachs A. Mgmt	33.69
2.	JPMorgan	30.39
3.	Vanguard Group	29.70
4.	Pimco	28.88
5.	GE Asset Management	28.28
Rank	**Worst**	**Score**
61.	Brown Advisory Funds	12.53
62.	Wells Fargo Funds Mgmt	11.31
63.	Manning & Napier Adv	9.64
64.	FolioMetrix	9.54
65.	Virtus Invst Partners	5.51

World Equity

Newcomer Victory scored well in the World Equity and Mixed Asset categories.

Rank	Best	Score
1.	Virtus Invst Partners	14.90
2.	BMO Global Asset Mgmt	14.82
3.	FolioMetrix	14.49
4.	Waddell & Reed Invst Mgmt	14.39
5.	Victory Capital Mgmt	14.04
Rank	**Worst**	**Score**
61.	Putnam Invst Mgmt	4.12
62.	RidgeWorth Funds	2.90
63.	Manning & Napier Adv	1.54
64.	GE Asset Mgmt	1.13
65.	Frost Investment Adv	0.61

Mixed Asset

Putnam has slid dramatically down the main list, but still looks good here.

Rank	Best	Score
1.	Guggenheim Invst	16.98
2.	Putnam Invst Mgmt	16.88
3.	Brown Advisory Funds	16.69
4.	Vanguard Group	16.48
5.	Victory Capital Mgmt	16.38
Rank	**Worst**	**Score**
61.	Pioneer Invst Mgmt	4.92
62.	Goldman Sachs A. Mgmt	4.74
63.	Schroder Invst Mgmt N. Am.	4.23
64.	Dimensional Fund Advisors	3.78
65.	Ivy Investment Mgmt	3.35

Taxable Bond

Legg Mason's bond shop, Western Asset Management, turned in a superior 2014.

Rank	Best	Score
1.	Lord Abbett	18.72
2.	Legg Mason	18.27
3.	AllianceBernstein	17.83
4.	Vanguard Group	16.15
5.	BMO Global Asset Mgmt	15.39
Rank	**Worst**	**Score**
61.	Virtus Invst Partners	5.09
62.	FolioMetrix	4.95
63.	Manning & Napier Adv	3.28
64.	SIT Investment Associates	2.00
65.	Victory Capital Mgmt	1.52

Tax-Exempt Bond

Newcomer SIT Investment has just two muni funds, the largest is for Minnesota.

Rank	Best	Score
1.	Schroder Invst Mgmt N. Am.	3.32
2.	Transamerica Asset Mgmt	3.30
3.	SIT Investment Associates	3.18
4.	MainStay Funds	3.00
5.	Oppenheimer Funds	2.94
Rank	**Worst**	**Score**
61.	Calvert Investments	0.41
62.	Brown Advisory Funds	0.24
63.	Frost Investment Adv	0.24
64.	FolioMetrix	0.17
65.	Manning & Napier Adv	0.07